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NATIONAL FOREIGN ASSESSMENT CENTER

WASHINGTON, D. C. 20505

15 December 1981

MEMORANDUM FOR: Mr. James Jackson  
INR/Japan  
Room 8840  
Department of State

SUBJECT: Japanese Economic Policy Meeting

Because of your ongoing interest in Japanese economic policy, I am forwarding the attached memorandum [redacted]

25X1

[redacted] If you have any questions on this or related matters please call me [redacted]

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[redacted]  
Japan Branch  
Office of East Asian Analysis

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NATIONAL FOREIGN ASSESSMENT CENTER

WASHINGTON, D. C. 20505

15 December 1981

MEMORANDUM FOR: Mr. Foster Collins  
Special Assistant to the Secretary  
Department of the Treasury

SUBJECT: Japanese Economic Policy Meeting

Because of your ongoing interest in Japanese economic  
policy, I am forwarding the attached memorandum [redacted]

25X1

[redacted] If you have any questions on this or related matters  
please call me [redacted]

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[redacted]  
Japan Branch  
Office of East Asian Analysis

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**NATIONAL FOREIGN ASSESSMENT CENTER**

**WASHINGTON, D. C. 20505**

**15 December 1981**

**MEMORANDUM FOR: Mr. James Murphy**  
**Room 323**  
**Office of the USTR**

**SUBJECT: Japanese Economic Policy Meeting**

Because of your ongoing interest in Japanese economic policy, I am forwarding the attached memorandum [redacted]

25X1

[redacted] If you have any questions on this or related matters please call me [redacted]

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Japan Branch  
Office of East Asian Analysis

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NATIONAL FOREIGN ASSESSMENT CENTER

WASHINGTON, D. C. 20505

15 December 1981

MEMORANDUM FOR: Mr. Larry Ferrar  
Deputy Director  
Room 4210  
Office of Japan Affairs

SUBJECT: Japanese Economic Policy Meeting

Because of your ongoing interest in Japanese economic policy, I am forwarding the attached memorandum [redacted]

25X1

[redacted] If you have any questions on this or related matters please call me [redacted]

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[redacted]  
Japan Branch  
Office of East Asian Analysis

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[redacted]  
25X1

**NATIONAL FOREIGN ASSESSMENT CENTER**

**WASHINGTON, D. C. 20505**

**15 December 1981**

**MEMORANDUM FOR: Mr. Franklin Vargo**  
**Deputy Assistant Secretary**  
**Department of Commerce**

**SUBJECT: Japanese Economic Policy Meeting**

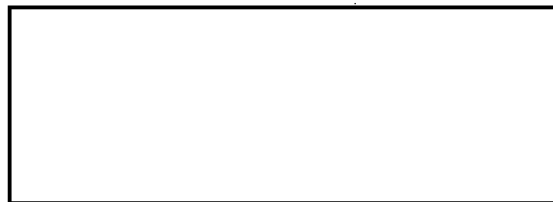
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**Japan Branch**  
**Office of East Asian Analysis**

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CIA  
NEAC

15 December 1981

MEMORANDUM

SUBJECT: Japanese Economic Policy Meeting

Prime Minister Suzuki and his ministers for economic policy will meet 19 December to determine the general direction of policy in 1982. For the first time, Suzuki is facing growing criticism for his policy of fiscal austerity which has contributed to the recent sharp slowdown in domestic economy and the runup in the trade surplus. Some of his advisers have suggested that he should postpone spending cuts and pump up government spending. Suzuki, however, appears to be holding firm. [REDACTED]

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Weak Domestic Demand

The focus of the meeting will be what, if anything, can be done about the domestic economy. Last week the Bank of Japan cut the official discount rate by three-quarters of a point, to 5.5 percent, but some officials believe that the economy needs a bigger boost. The Economic Planning Agency (EPA) has officially lowered its FY 1981 forecast for real GNP growth for the second time in three months. The target is now 4 percent, down from an original forecast of 5.3 percent. Moreover, EPA officials and others in the government are starting to argue that the FY 1982 target of 5.2 percent is optimistic. [REDACTED]

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Weak consumer demand has accounted for much of the sluggishness in the domestic sector. Although wage settlements with labor unions in major industries averaged 7.8 percent in the spring, smaller raises for employees of small businesses, reduced overtime, smaller-than-usual summer bonuses, and only marginal gains in employment have retarded real consumer spending. EPA acknowledges little chance of a turnaround in the near future. The employment market is weak; unemployment is running above the 1980 level. Winter bonuses will increase 5.4 percent, even lower than the 5.9 percent summer bonus. On the investment front, excess inventories and low capacity utilization have plagued industry. Even industries with strong export performances are

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scaling down forecasts for 1982 because of possible trade barriers, yen appreciation, and slow growth in major markets.

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The Ministry of Finance (MOF) is particularly worried about the strain sluggish domestic growth is putting on tax receipts. In the FY 1981 budget, tax revenues were expected to increase by 22.3 percent. In the first six months of this fiscal year, however, tax collections were only 9.7 percent above April-September 1980. With lower revenue, MOF would have to keep general account expenditures below the 6.3-percent nominal increase currently planned for FY 1982 or boost taxes in order to reduce government deficit spending by the 1.8 trillion yen hoped for by Suzuki.

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### The Meeting

The economic ministers will debate several plans, ranging from a budget that will be a fiscal drag on the economy next year to a small stimulus package:

- Finance Minister Watanabe will argue to continue the current austerity policy and, if necessary, rely on monetary policy to revive domestic demand.
- The Ministry of International Trade and Industry (MITI) and EPA Director General Komoto favor a more flexible fiscal policy. Komoto will press for a small increase in public investment and loans and will probably recommend that the FY 1982 target for reduction of bond issues be lowered.

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A number of business groups--all influential in the ruling Liberal Democratic Party--have also taken positions. The Japan Committee for Economic Development, the Japan Chamber of Commerce and Industry, and the Kansai Economics Federation are calling for personal tax cuts to take effect in FY 1982. At this point the Keidanren, the most powerful group, is not advocating tax cuts; they would rather see more cuts in government spending to keep the deficit in line. If any tax cut is in the offing though, the Keidanren favors incentives for corporations rather than reductions for individuals. In any case, the Keidanren will oppose any tax increase.

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### The Next Step

The outcome of this meeting will probably determine the size

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and shape of the FY 1982 budget Suzuki presents to the entire Cabinet for approval on 22 December. After the Cabinet signs off, the package will be submitted to the Diet on about 29 December. [REDACTED]

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For his part, Suzuki appears to be holding the line against changes in his austerity program. He has already invested a lot of political capital in the reform program by calling it his top priority. In what may be a sign of his commitment, Suzuki retained Watanabe as Finance Minister after the Cabinet reshuffle in late November; Watanabe, like the bureaucrats in the Finance Ministry, is committed to cutting the government deficit. One possibility open to Suzuki is to "front load" the budget in hopes that increased spending in early FY 1982 would boost economic growth in second-half 1982. If Suzuki does hold the line against further spending, we expect Japan's GNP growth to be roughly 4 percent in FY 1982. [REDACTED]

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Although Komoto is arguing that some stimulus is needed to curtail the likely record trade surplus in 1982, none of the measures under serious consideration would have much impact next year. Tokyo will probably play up any further cut in interest rates as part of an effort to boost imports. This reportedly was a major factor in the decision last week to cut the discount rate. This policy may stimulate some inventory rebuilding and spur housing construction. On the other hand, it could also retard yen appreciation and enhance the competitiveness of Japanese exports. [REDACTED]

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## Japan: EPA Growth Targets FY-1981-1982

	Actual FY 1980	Original Target FY 1981	October Revised Target FY 1981	December Revised Target FY 1981	FY 1982
(Percent change from previous period, in constant prices)					
GNP	3.8	5.3	4.7	4.0	5.2
Consumption	.7	4.9	2.7	1.5	4.0
Residential Construction	-9.5	4.3	4.3	0	10.0
Corporate Investment	5.8	7.3	4.4	2.0	8.0
Domestic Demands	.6	4.0	2.5	1.5	4.0
Foreign Demand	3.3	1.3	2.2	2.5	1.0
(billions of US\$)					
Current Account Balance	-7	-6	7	9-10	12